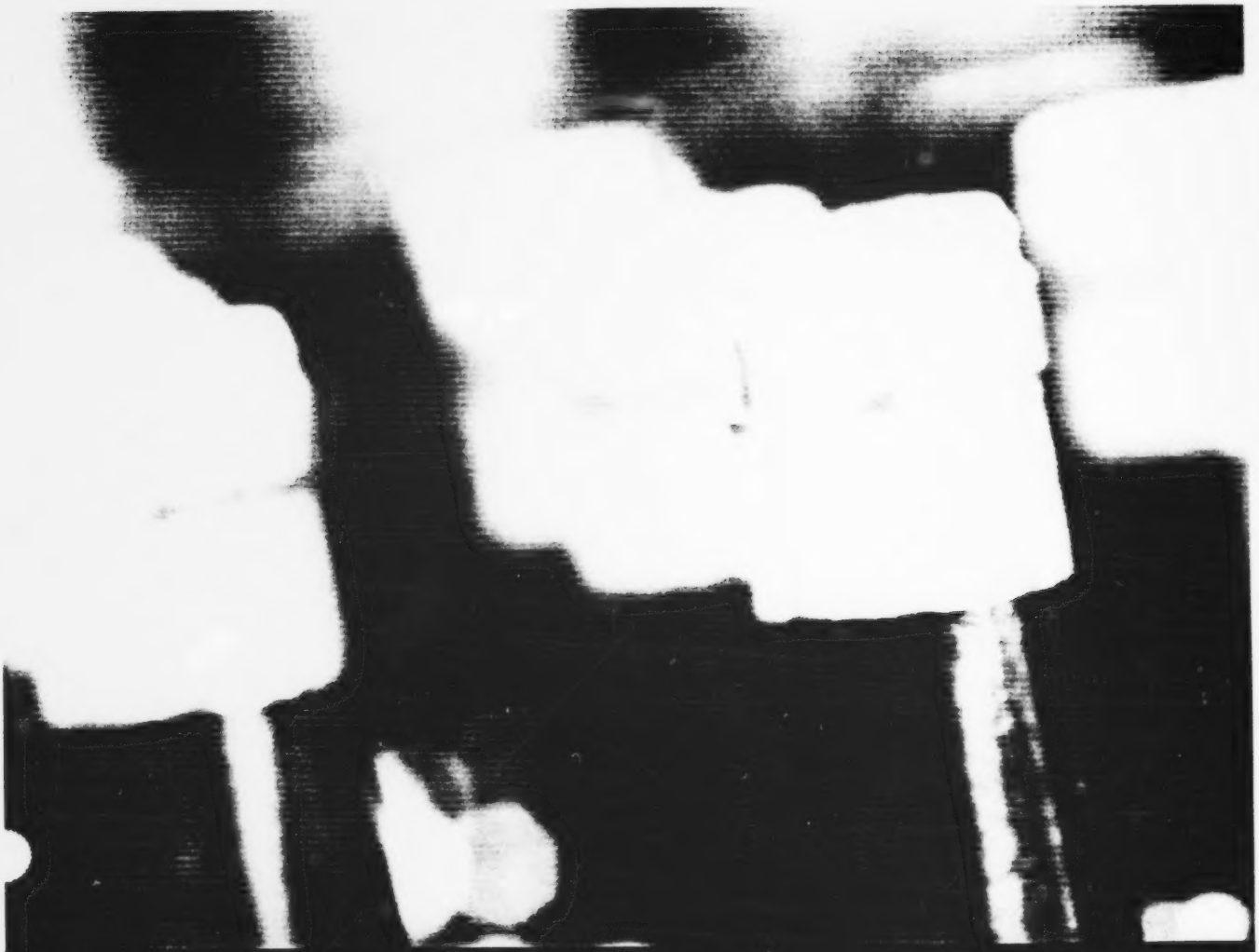

British Columbia
Liquor Distribution Branch

Service Plan for Fiscal Years 2006/07 - 2008/09

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LETTER FROM THE GENERAL MANAGER

February 21, 2006

The Honourable John Les,
Minister of Public Safety and Solicitor General:

On behalf of all of the employees of the Liquor Distribution Branch (LDB), I am pleased to present our service plan for fiscal years 2006/07 to 2008/09.

This plan supports our mission to be a customer-focused, profitable retailer and wholesaler of beverage alcohol dedicated to innovation, exemplary service, helpful product knowledge and social responsibility.

Over the three years covered by this plan, the LDB estimates it will generate $2.45 billion net income to government.

In addition to our financial performance, the LDB's high-level goals also include customer experience, business effectiveness, public safety and social responsibility, and workplace quality and employee excellence.

We recognize the importance of our industry stakeholders and wholesale customers. We look forward to working with them to increase customer choice and convenience, while continuing to generate government revenues and ensure socially responsible liquor service.

The 2006/07 - 2008/09 British Columbia Liquor Distribution Branch Service Plan was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of the plan, including the selection of performance measures and targets. The plan is consistent with government's strategic priorities and overall Strategic Plan.

All significant decisions, events and identified risks, as of January 2006, have been considered in preparing the plan.

I am accountable for ensuring the LDB achieves its specific objectives identified in the plan and for measuring and reporting actual performance.

The performance targets in this plan have been determined based on an assessment of the LDB's operating environment, forecast conditions, risk assessment and past performance.

Jay Chambers
General Manager

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Organization Overview

Role of the Liquor Distribution Branch

In British Columbia, the Liquor Distribution Branch (LDB), under the authority of the *Liquor Distribution Act*, has the sole right to purchase beverage alcohol, both in and out of British Columbia, in accordance with the *Importation of Intoxicating Liquors Act* (Canada).

Reporting to the Minister of Public Safety and Solicitor General, the LDB is responsible for the importation, distribution, wholesaling and retailing of beverage alcohol in British Columbia and operates government liquor stores and distribution centres in the province. The LDB is also responsible for the appointment of private retail agency stores*.

The *Liquor Distribution Act* specifies that the minister must appoint a general manager and that the general manager is responsible for administering the *Act*, including the general control, management and supervision of liquor stores, subject to the orders, directions and supervision of the minister.

The *Act* further clarifies the powers of the general manager and delineates the administration of the LDB and the operation of its liquor stores. The LDB follows the Crown Agencies Secretariat guidelines for service plans and annual reports, and is reported out in public accounts in a manner similar to a commercial crown corporation, on a modified equity basis.

Another branch within the Ministry of Public Safety and Solicitor General, the Liquor Control and Licensing Branch (LCLB), enforces the *Liquor Control and Licensing Act*. The LCLB is responsible for the licensing, monitoring and enforcement of the *Act* and regulations related to private liquor stores, restaurants, pubs and manufacturers.

*Agency stores refer to rural agency stores, manufacturer stores, independent wine stores and duty-free stores.

ORGANIZATION OVERVIEW

Role of the Liquor Distribution Branch

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Organization Overview

Business of the Liquor Distribution Branch
With a workforce of approximately 3,500 full and part-time employees, the LDB operates, as of January 2006:

- 209 government liquor stores throughout the province;
- two distribution centres, one in Vancouver and one in Kamloops; and
- a head office facility in Vancouver.

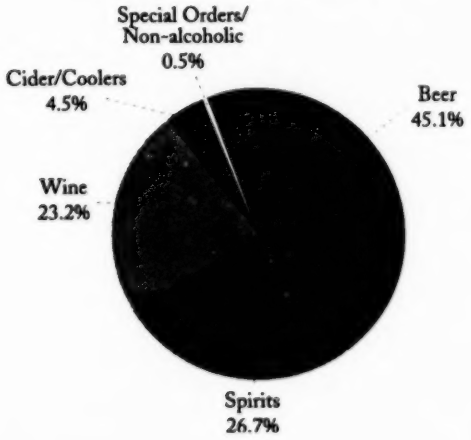
The LDB issues appointments or authorizations and enters into contracts with the private sector for the operation of private retail outlets, such as licensee retail stores (LRSs), rural agency stores (RASs), beverage alcohol manufacturer stores, independent wine stores and duty-free stores. These authorizations and agreements are in addition to any licensing terms that may be in place with the LCLB.

As of January 2006, private sector retail establishments included:

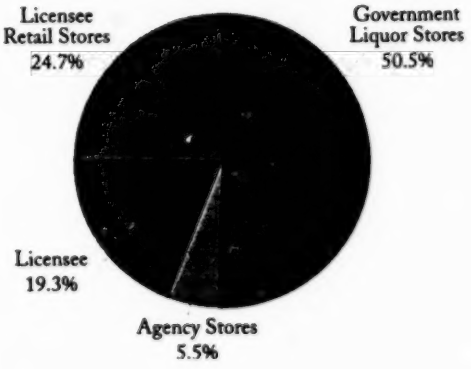
- 581 LRSs (private liquor stores licensed to sell all liquor products);
- 230 RASs (general merchandise stores in rural communities authorized to sell all liquor products);
- 132 on-site manufacturer stores (stores at wineries, breweries and distilleries that sell products manufactured on-site);
- 26 off-site manufacturer stores (stores operated by the BC wine industry that sell BC winery products);
- 12 independent wine stores (private wine stores authorized to sell all types of wine); and
- 10 duty-free stores.

The LDB purchases beverage alcohol from suppliers and manufacturers in British Columbia, other provinces and from around the world. Licensed manufacturing sites in British Columbia include 131 wineries, 46 breweries and brew pubs, and eight distilleries. The LDB buys products from more than 400 manufacturers.

Percentage of Gross $ Sales by Product Category 2004/05



Percentage of Gross $ Sales by Retail Channel 2004/05



Strategic Context

Vision
That our customers have the opportunity to discover, enjoy and share the evolving world of beverage alcohol.

Mission
To be a customer-focused, profitable retailer and wholesaler of beverage alcohol dedicated to innovation, exemplary service, helpful product knowledge and social responsibility.

Values
Exemplary Service
We take pride in the quality of our work. We strive for excellence in serving customers and co-workers.

Public Safety and Social Responsibility
We encourage and support the responsible use of beverage alcohol.

Integrity
We take responsibility and are fully accountable for our actions, decisions and behaviour. We are open, honest and fair.

Respect
We treat all individuals with fairness, dignity and respect.

Teamwork
We support one another to achieve corporate goals.

Innovation
We encourage our people to find innovative and creative ways to improve our business.

Strategic Context

Planning Context and Key Strategic Issues

The Liquor Distribution Branch (LDB) operates a provincewide retail and wholesale business within a public-private model.

The retail model includes government liquor stores, licensee retail stores, rural agency stores, British Columbia manufacturer stores, independent wine stores and duty-free stores. The distribution model includes two government distribution centres and a number of private distributors authorized to distribute liquor as agents of the LDB.

The Evolving Beverage Alcohol Business

The beverage alcohol retail model continues to adjust in British Columbia. Currently there are nearly 1,200 retail outlets in the province's public-private retail environment, with an opportunity for additional stores to open. With more than 60 new private liquor stores opening in the most recent 12 months, these stores will expand the points of purchase for liquor customers.

Excellence in Public Safety and Social Responsibility

The LDB works in partnership with the Liquor Control and Licensing Branch (LCLB) on the 2-ID checking program. The LDB's role as a socially responsible retailer of beverage alcohol extends beyond addressing the requirements of current legislation – initiatives include training programs for LDB employees and in-store responsible-use promotional activities in partnership with beverage alcohol suppliers. The LDB is also working with other levels of government and stakeholder groups to develop and initiate programs designed to encourage the responsible use of beverage alcohol, including the annual Support Dry Grad fundraising campaign, ICBC partnerships, Canadian Association of Liquor Jurisdictions co-managed marketing promotions, and the Get Home Safe program.

An Enhanced Shopping Experience

BC Liquor Stores are improving efficiencies and services to customers by offering an enhanced shopping experience and improvements to operations and administration. A key facet of this is the consolidation of smaller government liquor stores into Signature Stores.

Distribution/Wholesale

The distribution supply chain system continues to adjust to meet the demands of an expanded liquor retail network. The LDB is making changes to its distribution system that will improve services to wholesale customers and increase efficiencies in its stores.

Strategic Context

Employee Engagement and Commitment
The dedication and commitment of LDB employees is essential to the successful implementation of this service plan, and the LDB will continue to survey its employees to monitor engagement, satisfaction and commitment. The LDB has a low turnover rate, resulting in an experienced group of long-term employees. However, as these employees move closer to retirement, it is vital that the LDB has succession plans in place.

Investing in Technology
Improved technology is a key component of the LDB's ability to deliver efficient and effective service to retail and wholesale customers. The LDB must continue to invest in the upgrading and integration of its systems to improve services and efficiencies, with a focus on supply chain-related systems and information.

Supporting Tourism in British Columbia
BC Liquor Stores serve on average more than 750,000 customers weekly, and many BC Liquor Stores are strategically located in tourism and wine industry communities.

The British Columbia Wine Industry
The LDB, through its network of retail stores, is committed to expanding the profile and sale of British Columbia wines. The LDB will continue to partner with the provincial wine industry in the development of programs that showcase British Columbia wines.

Risk Management

Risk Factors and Sensitivities	Mitigating Strategies
Liquor is a discretionary consumer product and an unexpected downturn in the economy would negatively affect LDB sales projections.	The LDB will carefully monitor sales and will make necessary adjustments to sales strategies and operating expenses in order to achieve net income targets.
Liquor sales are negatively impacted by poor weather, particularly in the summer.	The LDB will carefully monitor sales and will make necessary adjustments to sales strategies and operating expenses in order to achieve net income targets.
Liquor is a high-value product and is susceptible to illicit activity such as cross-border smuggling and theft.	The LDB will work with appropriate municipal, provincial and federal enforcement agencies to identify and address illicit activity.
Shifts in sales from LDB stores to private stores increase the cost of discounts applied to private store purchases.	The LDB will carefully monitor discount costs and will make necessary adjustments to sales strategies and operating expenses.
Unforeseen events such as natural disasters may disrupt business at any time.	The LDB will continuously improve upon and test the LDB's Business Continuity Plan.
A number of knowledgeable, experienced employees are reaching retirement age.	The LDB will develop succession plans for key positions and continue to provide necessary on-the-job training.

The LDB Executive Management Committee meets monthly to discuss service plan performance, risks and mitigating strategies.

Strategic Direction

The Four Pillars Framework

The Liquor Distribution Branch (LDB) has organized its strategic priorities and key objectives around the concept of four pillars. Overarching these four pillars is the financial performance goal, and supporting them are the LDB's dedicated employees.

High-Level Goals

The five high-level goals are:

Goal 1: Financial Performance
Maximize net income within the policy guidelines established by government

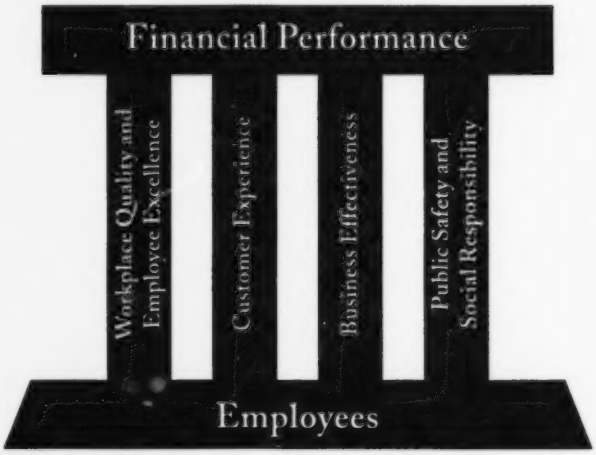
Goal 2: Workplace Quality and Employee Excellence
Build a customer-focused, high performance work environment that results in greater employee involvement, development, innovation and creativity

Goal 3: Customer Experience
Continuously improve the customer experience in BC Liquor Stores

Goal 4: Business Effectiveness
Continue to seek out improvements to operating efficiencies and maximize wholesale customer satisfaction in a climate of constant change

Goal 5: Public Safety and Social Responsibility
Encourage the responsible use of beverage alcohol

The Four Pillars Framework



Objectives, Strategies & Performance Measures

GOAL 1

FINANCIAL PERFORMANCE

Maximize net income within the policy guidelines established by government.

Objective

1. Achieve or exceed net income targets

Strategy

1. Grow sales and effectively manage operating expenses

Performance Measures	Actual	Forecast	Targets		
In Millions $	Fiscal 2004-05	Fiscal 2005-06	Fiscal 2006-07	Fiscal 2007-08	Fiscal 2008-09
Total sales	**2,148.4**	**2,241.3**	**2,300.6**	**2,368.4**	**2,418.6**
Gross margin	1,008.5	1,020.8	1,049.8	1,079.6	1,100.4
Operating expenses*	**240.0**	**244.7**	**257.3**	**265.4**	**270.1**
Net income	778.6	779.1	798.1	819.8	835.9
Total LDB expenses as a percentage of total LDB sales	**11.2**	**10.9**	**11.2**	**11.2**	**11.2**

* No increases in employee remuneration are included in operating expenses. Any wage increase would increase operating expenses and reduce net income.

Strategic Direction

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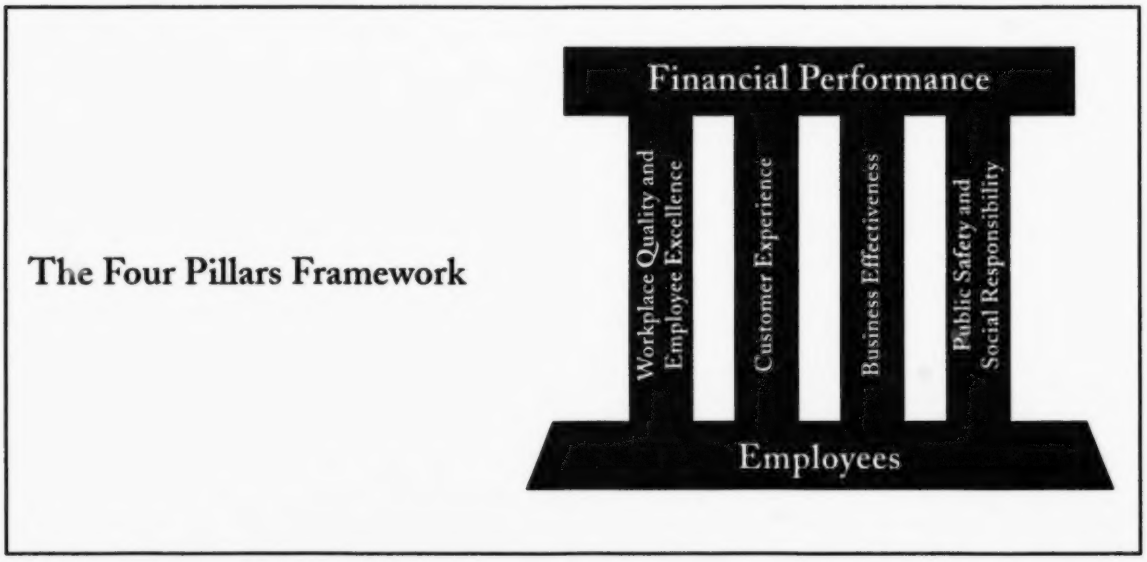

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Objectives, Strategies & Performance Measures

GOAL 2

WORKPLACE QUALITY AND EMPLOYEE EXCELLENCE

Build a customer-focused, high performance work environment that results in greater employee involvement, development, innovation and creativity.

Objective

1. Continue to develop a customer-focused workforce that is knowledgeable, skilled, motivated and enthusiastic

Strategies

1. Enhance staff skills through management development and employee training programs
2. Employ a competency-based recruitment process
3. Develop succession plans for key positions
4. Provide a safe, healthy and harassment-free workplace
5. Promote a retail-oriented culture through an enhanced performance management and recognition process

Performance Measures	Actual	Forecast	Targets		
	Fiscal 2004-05	Fiscal 2005-06	Fiscal 2006-07	Fiscal 2007-08	Fiscal 2008-09
Employee satisfaction and engagement	N/A	57%	70%	80%	90%

Objectives, Strategies & Performance Measures

GOAL 3

CUSTOMER EXPERIENCE

Continuously improve the customer experience in BC Liquor Stores.

Objective

1. Continue to enhance the shopping experience for LDB retail customers

Strategies

1. Continue to revitalize the store network
2. Provide enhanced customer services
3. Improve customer access to British Columbia Vintners Quality Alliance (VQA) wines

Performance Measures	Actual	Forecast	Targets		
	Fiscal 2004-05	Fiscal 2005-06	Fiscal 2006-07	Fiscal 2007-08	Fiscal 2008-09
Total number of additional Signature Stores opened	**3**	**2**	**12**	**5**	**5**
Average retail customer transaction value	$26.70	$26.80	$27.87	$28.99	$30.15
Increased dollar sales of VQA wines through LDB retail stores	**5%**	**+ 20%**	**+ 20%**	**+ 20%**	**+ 20%**
Retail customer satisfaction	89%	90%	90%	90%	90%

Objectives, Strategies & Performance Measures

GOAL 4

BUSINESS EFFECTIVENESS

Continue to seek out improvements to operating efficiencies and maximize wholesale customer satisfaction in a climate of constant change.

Objectives

1. Increase wholesale customer satisfaction
2. Improve cost efficiencies

Strategies

1. Increase the use of available and leading-edge technology
2. Maximize the potential efficiencies available through improved distribution operations
3. Provide enhanced wholesale customer services

Performance Measures	Actual	Forecast	Targets		
	Fiscal 2004-05	Fiscal 2005-06	Fiscal 2006-07	Fiscal 2007-08	Fiscal 2008-09
Wholesale customer satisfaction	**84%**	**90%**	**90%**	**90%**	**90%**
Distribution centre accuracy rate	99%	99%	99%	99%	99%
Distribution centre labour cost per case shipped	**$1.66**	**$1.59**	**$1.56**	**$1.53**	**$1.53**
Number of LRSs receiving direct shipment	97	200	300	400	500
LDB stores operating costs as a percentage of sales	**11.4%**	**9.9%**	**10.9%**	**10.9%**	**10.9%**
LDB store sales per square foot	$1,309	$1,369	$1,370	$1,448	$1,488

Objectives, Strategies & Performance Measures

GOAL 5

PUBLIC SAFETY AND SOCIAL RESPONSIBILITY

Encourage the responsible use of beverage alcohol.

Objectives

1. No sales to minors or intoxicated persons
2. Increased awareness and promotion of the responsible use of beverage alcohol

Strategies

1. Increased staff education and enforcement of 2-ID program requirements
2. Develop co-operative programs with beverage alcohol suppliers and other stakeholders

Performance Measures	Actual	Forecast	Targets		
	Fiscal 2004-05	Fiscal 2005-06	Fiscal 2006-07	Fiscal 2007-08	Fiscal 2008-09
Government liquor store compliance with 2-ID checking policy	**82%**	**85%**	**100%**	**100%**	**100%**
Customer awareness of LDB's social responsibility programs	**70%**	N/A	**90%**	**90%**	**90%**
Implementation of responsible-use beverage alcohol programs	**12**	**12**	**12**	**12**	**12**

Performance Measure Descriptions

Performance Management Systems

The following information summarizes the source and accuracy of the data used for the service plan performance measures.

Sales Data (goals 1, 3, 4): Sales data for government liquor stores (GLSs) is collected from computerized point of sales cash register systems and stored in head office databases. Sales made directly to customers by agents on behalf of the Liquor Distribution Branch (LDB) are transmitted to the LDB and stored in databases. LDB financial statements are audited by the Auditor General's office annually.

Expense Data: (goals 1, 4): LDB expense data is captured, stored and reported by the LDB's financial system. The LDB's financial statements are audited by the Auditor General's office annually.

Employee and Customer Surveys (goals 2, 3, 4, 5): The LDB contracts with professional survey companies to ensure that survey results are statistically valid.

Distribution Centre Accuracy Rate: The accuracy of distribution centre orders is determined by random manual checks of orders that are ready for shipment.

2-ID Checking: The LDB contracts with the Liquor Control and Licensing Branch to check GLS compliance with ID-checking requirements by using mystery shoppers. A sample of GLSs is checked at least once per year.

Other Data (goals 3, 4, 5): Measures, including Total number of additional Signature Stores opened; Number of LRSs receiving direct shipment; and Implementation of co-operative responsible-use beverage alcohol programs, are counted and tracked manually.

Performance Measure Descriptions

GOAL 1
FINANCIAL PERFORMANCE

Total Sales
Total gross dollar sales of beverage alcohol.

Gross Margin
Gross provincial dollar sales less discounts and cost of goods sold.

Operating Expenses
Total LDB operating expenses.

Net Income
Net income is the contribution made to government by the LDB. Net income is reported in accordance with generally accepted accounting principles.

Total LDB expenses as a percentage of total LDB sales
Operating expenses divided by total sales. Total sales, gross margin and operating expenses are key drivers in achieving the LDB's net income targets.

GOAL 2
WORKPLACE QUALITY AND EMPLOYEE EXCELLENCE

Employee satisfaction and engagement
The degree to which LDB employees feel satisfied with the work environment and involved with the corporate vision and mission. This is evaluated by conducting an annual survey sent to a cross-section of employees. Employee performance is directly related to satisfaction with the work environment and commitment to the organization's vision/mission.

Performance Measure Descriptions

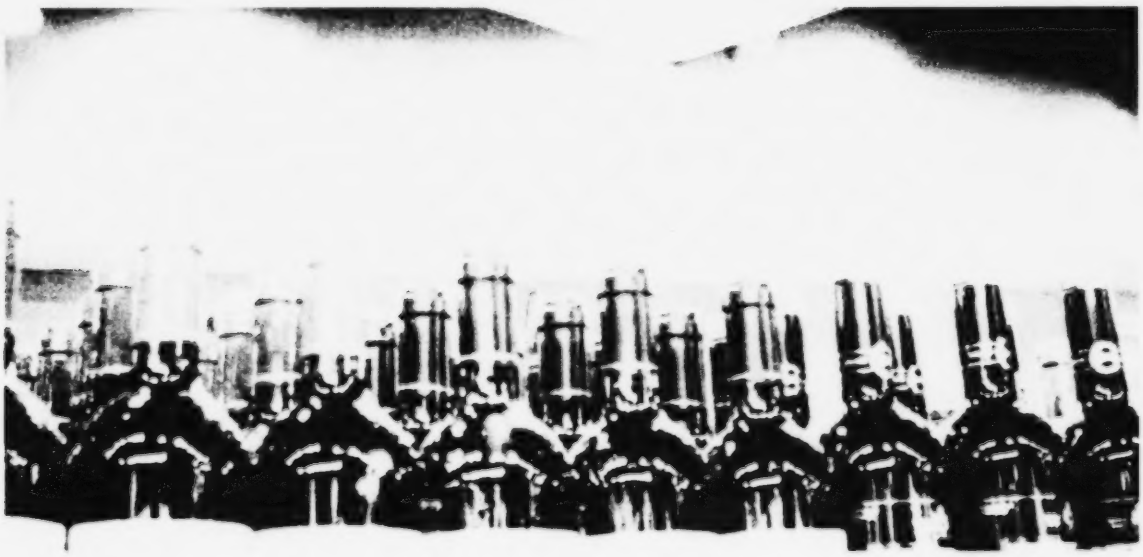
GOAL 3
CUSTOMER EXPERIENCE

Total number of additional Signature Stores opened
A Signature Store is a larger store that offers an expanded product selection in an enhanced shopping environment. New Signature Stores will normally result in a consolidation of two or more stores. Consolidating smaller stores into Signature Stores is a key strategy to deliver enhanced customer service and improve LDB operating efficiencies within the mixed public-private retail model.

Average retail customer transaction value
Gross LDB store sales to retail customers divided by the number of retail customer transactions. This measure is an indicator of the LDB's success in improving the customer's retail shopping experience.

Increased dollar sales of VQA wines sold in LDB stores
The percentage change in LDB store gross dollar sales of British Columbia Vintners Quality Alliance (VQA) wines to retail and wholesale customers from one fiscal year to the next. This measure is an indicator of the LDB's success in improving the customer's shopping experience and support for quality British Columbia wines.

Retail customer satisfaction
Retail customer satisfaction with LDB store service as determined through customer surveys. Conducted annually in selected GLSs, this measure is an indicator of the LDB's efforts to improve service to retail customers and will identify key opportunities for improvement.



Performance Measure Descriptions

GOAL 4
BUSINESS EFFECTIVENESS

Wholesale customer satisfaction
The level of wholesale customer satisfaction with LDB service as determined by annual customer surveys sent to a cross-section of wholesale customers. This measure is an indicator of the LDB's efforts to improve service to wholesale customers and will identify key opportunities for improvement.

Distribution centre accuracy rate
The number of correct cases assembled, divided by the total number of available cases ordered. This measure is an indicator of the LDB supply chain effectiveness in ensuring that orders are accurately assembled in distribution centres.

Distribution centre labour cost per case shipped
Total distribution centre labour expenses divided by total distribution centre case shipments. This measure is an indicator of distribution centre labour productivity.

Number of LRSs receiving direct shipment
The number of licensee retail stores that receive direct shipment of their LDB orders. Increasing the number of LRSs that receive direct shipments improves wholesale customer service and increases LDB distribution system efficiency.

LDB store operating costs as a percentage of sales
LDB store operating costs divided by total LDB store gross sales dollars. Licensee store 100 is excluded from the calculation. This measure is an indicator of LDB store operating efficiency.

LDB store sales per square foot
Total LDB store gross sales divided by total store system square feet. This is one measure of LDB store operating efficiency. This measure includes licensee stores 100 and 231.

Performance Measure Descriptions

GOAL 5
PUBLIC SAFETY AND SOCIAL RESPONSIBILITY

Government liquor store compliance with 2-ID checking policy
Compliance is measured by dividing the number of violations to the ID policy (two pieces of ID for anyone appearing to be under 25) by the number of times compliance is checked. The Liquor Control and Licensing Branch checks compliance through a mystery shoppers program. A high compliance percentage will ensure there are no sales to minors.

Customer awareness of LDB's social responsibility programs
The degree to which LDB store customers are aware of the LDB's social responsibility programs. This measure is determined by customer surveys.

Implementation of responsible-use beverage alcohol programs
The number of responsible-use beverage alcohol programs the LDB implements each year including those in co-operation with suppliers and/or wholesale customers. Involving industry in responsible use programs will improve program effectiveness.

Performance Measure Descriptions

Benchmarking

The LDB previously benchmarked itself with three other provinces: Manitoba, Ontario and Alberta. The LDB expects to continue benchmarking annually with these partners on the same measures, which are described below.

Per capita net income of beverage alcohol

This measure will show how the British Columbia liquor system compares to other provinces from the perspective of generating government revenue.

Government liquor store operating expenses as a percentage of store sales

This measure is an indicator of LDB store efficiency as compared to other provincial government stores.

Sales per square foot

This is another indicator of the efficiency of the LDB's store system.

Alignment with Government's Strategic Plan

As with all branches and agencies of government, the LDB is aligned to support and implement the government's goals. The LDB estimates that it will generate $2.45 billion in net income to government over the three years covered by this service plan. This revenue will assist government in achieving its goals to:

1. Make B.C. the best educated, most literate jurisdiction on the continent.

2. Lead the way in North America in healthy living and physical fitness.

3. Build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors.

4. Lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none.

5. Create more jobs per capita than anywhere else in Canada.

Summary Financial Outlook

Summary Financial Outlook (in thousands $)

	Actual Fiscal 2004/05	Forecast Fiscal 2005/06	Budget Fiscal 2006/07	Budget Fiscal 2007/08	Budget Fiscal 2008/09
Total sales	2,148,383	2,241,321	2,300,596	2,368,399	2,418,603
Commissions and discounts	91,287	121,398	131,607	135,472	138,344
Cost of sales	1,048,602	1,099,152	1,119,162	1,153,348	1,179,857
Operating expenses*	240,045	244,671	257,293	265,385	270,055
Other income	10,145	3,000	5,600	5,600	5,600
Net income	778,594	779,100	798,134	819,794	835,947
Capital requirements	9,808	30,322	27,000	12,000	12,000
FTEs	2,664	2,685	2,703	2,768	2,814

Key Forecast Assumptions

Forecast assumptions, based on market trends by product categories, include sales increases of 2.6 per cent, 2.9 per cent and 2.1 per cent over the next three years. Discount increases include a three per cent market share shift to private outlets in 2006/07. Capital requirements reflect expenditures for updating and improving stores, technology-related projects and ongoing equipment replacement.

Risk factors, sensitivities and mitigating strategies are detailed on page 9.

* No increases in employee remuneration are included in operating expenses. Any wage increase would increase operating expenses and reduce net income.

Significant Changes from the 2005-2008 Service Plan

Each year the three-year Service Plan is reviewed and revised as necessary to align with the current environment. As a result of this review changes were made in the following areas:

Goal 1 (Financial Performance)

- Sales targets have been adjusted based on market trends by product category (spirits, wine, beer etc).
- Operating expenses have been adjusted to reflect increases in sales, rent and amortization expenses, along with employment expenses related to increased sales.

Goal 2 (Workplace Quality and Employee Excellence)

- Employee satisfaction and engagement targets have been adjusted based on results of employee survey completed in July 2005.

Goal 3 (Customer Experience)

- Total number of Signature Store targets have been adjusted to reflect current and anticipated market opportunities.
- Average retail customer transaction value targets have been adjusted due to increased sales forecast.

Goal 4 (Business Effectiveness)

- Distribution centre labour cost per case shipped targets have been adjusted to reflect current trends.
- LDB store sales per square foot targets have been adjusted to reflect increased sales forecast.

Goal 5 (Public Safety and Social Responsibility)

- Implementation of responsible-use beverage alcohol program targets have been adjusted to reflect 2005/06 forecast.

Contact Information

For more information about the Liquor Distribution Branch (LDB), or to request more copies of this Service Plan, please contact the LDB Communications department:

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The British Columbia Liquor Distribution Branch Service Plan for Fiscal Years 2006/07 - 2008/09 is available online at **www.bcliquorstores.com.**